

**HAYWOOD COUNTY UTILITY DISTRICT**  
**(A COMPONENT UNIT OF HAYWOOD COUNTY, TENNESSEE)**

**FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION JUNE 30,**  
**2014 AND 2013**

# HAYWOOD COUNTY UTILITY DISTRICT

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## **INTRODUCTORY SECTION**

**HAYWOOD COUNTY UTILITY DISTRICT  
DIRECTORY  
June 30, 2014**

**BOARD MEMBERS**

Robert B. Kendrick	President
Sarah Turner	Member
Tommy Castellaw	Member

**MANAGEMENT TEAM**

Mayor A. Franklin Smith, President  
Stephen Carlton, Chief Accountant

**INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Alexander Thompson Arnold PLLC  
Jackson, Tennessee

## **FINANCIAL SECTION**

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## **Independent Auditor's Report**

Board of Directors  
Haywood County Utility District  
Brownsville, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Haywood County Utility District (the District), a component unit of Haywood County, Tennessee, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Haywood County Utility District, as of June 30, 2014 and 2013, and the respective changes in financial position and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 5-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section and the supplementary and other information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary and other information, except that which has been marked unaudited, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary and other information, except that which has been marked unaudited, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and the supplementary and other information marked unaudited have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and

compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Alexander Thompson Arnold PLLC*

Jackson, Tennessee  
December 15, 2014



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Haywood County Utility District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended June 30, 2014 and 2013. All amounts, unless otherwise indicated, are expressed in actual dollars.

### **FINANCIAL HIGHLIGHTS**

Management believes the District's financial condition is strong. The District is well within its more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights.

- Total assets at year-end were \$3,687,278 and exceeded liabilities in the amount of \$3,202,228 (i.e. net position). Total assets decreased by \$67,739 due primarily to current year depreciation expense.
- Net position decreased \$53,210 during the current year due to depreciation expense. Unrestricted net position increased by \$74,115.
- During fiscal year 2014, the District delivered 38,375,000 gallons compared to 40,125,400 during the fiscal year 2013.
- Operating revenues were \$282,052, an increase over year 2013 in the amount of \$88,576 or 45.78%.
- Operating expenses were \$314,787, an increase over year 2013 in the amount of \$30,809 or 10.85%.
- The operating loss for the year was \$32,735 as compared to an \$90,502 operating loss during the 2013 fiscal year.
- Ratios of operating income (loss) to total operating revenue were (18.87%), (57.67%), and (46.18%), for 2014, 2013, and 2012, respectively.
- Capital assets decreased from \$3,428,726 in 2013 to 3,290,739 in 2014 due to current year depreciation expense.
- Debt obligation decreased from \$456,192 in 2013 to \$445,530 in 2014 due to current year principal payments.

### **OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary and other information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District's strategic plan, budget, bond resolutions and other management tools were used for this analysis. The Financial Statements and Supplementary and Other Information are made up of four sections: 1) the introductory section, 2) the financial section, 3) the supplementary and other information section, 4) and the internal control and compliance section. The introductory section includes the District's directory. The financial section includes the MD&A, the independent auditor's report, and the financial statements with accompanying notes. The supplementary and other information section includes selected financial and operational information. The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

### **REQUIRED FINANCIAL STATEMENTS**

A *Proprietary Fund* is used to account for the operations of the District, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing

## MANAGEMENT'S DISCUSSION AND ANALYSIS

services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements report information about the District, using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.

The *Statement of Net Position* includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities) with the differences reported as net position. As of June 30, 2014 and 2013, the District has no deferred inflows/outflows to report. It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents the results of the business activities over the course of the fiscal year and information as to how net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the District's operations and can be used to determine whether the District has successfully recovered all of its costs. This statement also measures the District's profitability and credit worthiness.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises.

The *Notes to the Financial Statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

### FINANCIAL ANALYSIS

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District, and the changes in the net position. Net position is one way to measure the financial health or financial position of the District. Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

The District's total net position decreased by \$53,210 and decreased by \$111,570 for the fiscal years ended June 30, 2014 and 2013, respectively. The significant variance in the change in net position is due to the loss that resulted from operations. The analysis below focuses on the District's net position (Table 1) and changes in net position (Table 2) during the years.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 1A  
CONDENSED STATEMENT OF NET POSITION

	June 30, 2014	June 30, 2013	Amount	Percent
Current and other assets	\$ 396,539	\$ 326,291	\$ 70,248	21.53%
Capital assets	3,290,739	3,428,726	(137,987)	-4.02%
Total assets	<u>3,687,278.00</u>	<u>3,755,017.00</u>	<u>(67,739.00)</u>	-1.80%
Long-term liabilities	434,570	445,747	(11,177)	-2.51%
Other liabilities	50,480	53,832	(3,352)	-6.23%
Total liabilities	<u>485,050</u>	<u>499,579</u>	<u>(14,529)</u>	-2.91%
Net investment in capital assets	2,845,209	2,972,534	(127,325)	-4.28%
Unrestricted	357,019	282,904	74,115	26.20%
Total net position	<u>\$ 3,202,228</u>	<u>\$ 3,255,438</u>	<u>\$ (53,210)</u>	-1.63%

Table 1B  
CONDENSED STATEMENT OF NET POSITION

	June 30, 2013	June 30, 2012	Amount	Percent
Current and other assets	\$ 326,291	\$ 326,241	\$ 50	0.02%
Capital assets	3,428,726	3,550,682	(121,956)	-3.43%
Total assets	<u>3,755,017.00</u>	<u>3,876,923.00</u>	<u>(121,906.00)</u>	-3.14%
Long-term liabilities	445,747	457,684	(11,937)	-2.61%
Other liabilities	53,832	52,231	1,601	3.07%
Total liabilities	<u>499,579</u>	<u>509,915</u>	<u>(10,336)</u>	-2.03%
Net investment in capital assets	2,972,534	3,083,105	(110,571)	-3.59%
Unrestricted	282,904	283,903	(999)	-0.35%
Total net position	<u>\$ 3,255,438</u>	<u>\$ 3,367,008</u>	<u>\$ (111,570)</u>	-3.31%

The decrease in capital assets in the current year was due mostly to depreciation, as there were no additions and no deletions to capital assets. The increase in current and other assets was due to an increase in cash. The overall decrease in net position in the current year was due to depreciation expense in excess of debt payments which decreased net investment in capital assets.

Changes in the District's net position can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Changes in Net Position for the years. As noted below there was a decrease in net position of (3.31%). This was mainly due to the fact that both expenses and revenues increased; however, the increase in revenues could not compensate for total expenses. As was the case in 2012 and 2013, expenses exceeded revenues, causing the change in net position to remain negative. Expenses increased by a greater margin than did revenues; therefore, the negative change in net position in 2013 was greater than in 2012.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 2A

### **CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	June 30, 2014	June 30, 2013	Amount	Percent
Operating revenues	\$ 282,052	\$ 193,476	\$ 88,576	45.78%
Non-operating revenues	1,276	1,511	(235)	-15.55%
Total revenues	<u>283,328</u>	<u>194,987</u>	<u>88,341</u>	45.31%
Cost of sales and services	89,592	94,038	(4,446)	-4.73%
Operation and maintenance	4,422	1,970	2,452	124.47%
Administrative and general	82,786	50,374	32,412	64.34%
Depreciation expense	137,987	137,596	391	0.28%
Interest expense	21,751	22,579	(828)	-3.67%
Total expenses	<u>336,538</u>	<u>306,557</u>	<u>29,981</u>	9.78%
Change in net position	(53,210)	(111,570)	58,360	-52.31%
Beginning net position	<u>3,255,438</u>	<u>3,367,008</u>	<u>(111,570)</u>	-3.31%
Ending net position	<u>\$ 3,202,228</u>	<u>\$ 3,255,438</u>	<u>\$ (53,210)</u>	-1.63%

Table 2B

### **CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	June 30, 2013	June 30, 2012	Amount	Percent
Operating revenues	\$ 193,476	\$ 181,514	\$ 11,962	6.59%
Non-operating revenues	1,511	1,805	(294)	-16.29%
Total revenues	<u>194,987</u>	<u>183,319</u>	<u>11,668</u>	6.36%
Cost of sales and services	94,038	85,760	8,278	9.65%
Operation and maintenance	1,970	844	1,126	133.41%
Administrative and general	50,374	41,143	9,231	22.44%
Depreciation expense	137,596	137,596	-	0.00%
Interest expense	22,579	22,794	(215)	-0.94%
Total expenses	<u>306,557</u>	<u>288,137</u>	<u>18,420</u>	6.39%
Change in net position	(111,570)	(104,818)	(6,752)	6.44%
Beginning net position	<u>3,367,008</u>	<u>3,471,826</u>	<u>(104,818)</u>	-3.02%
Ending net position	<u>\$ 3,255,438</u>	<u>\$ 3,367,008</u>	<u>\$ (111,570)</u>	-3.31%

Operating revenues showed a 45.78% increase from 2013 to 2014 and a 6.59% increase from 2012 to 2013. This has been caused by an increase in consumption from 2012-2013 as well as an increase in rates from 2012-2013 and 2013-2014. Expenses increased 9.78% from 2013 to 2014 and 6.39% from 2012 to 2013. There was an increase in cost of sales and services of 4.47% over the three year period accounts for the largest portion of the increase in the expenses. While cost of sales and services decreased due to rate changes from

## MANAGEMENT'S DISCUSSION AND ANALYSIS

suppliers, which is reflected in the increased rates for customers. Net position showed a decrease of 4.74% over the three year period due primarily to operating losses incurred in 2012, 2013, and 2014.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

At the end of fiscal years 2014 and 2013, the system had \$3,290,739 and 3,428,726 (net of accumulated depreciation) invested in a broad range of utility capital assets. This investment includes land, land rights, distribution systems and their related equipment, and various types of equipment. Based on the uses of the aforementioned assets, they are classified for financial purposes as distribution plant. This investment represents an overall decrease (net of increases and decreases) of \$137,987 or 4.02% over last year.

The following tables summarize the District's capital assets, net of accumulated depreciation, and changes therein, for the years ended June 30, 2014 and 2013. These changes are presented in detail in Note 3C to the financial statements.

Table 3  
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	June 30, 2014	June 30, 2013	Amount	Percent
Distribution plant	\$ 3,290,739	\$ 3,428,726	\$ (137,987)	-4.02%
Total capital assets	<u>\$ 3,290,739</u>	<u>\$ 3,428,726</u>	<u>\$ (137,987)</u>	<u>-4.02%</u>

  

	June 30, 2013	June 30, 2012	Amount	Percent
Distribution plant	\$ 3,428,726	\$ 3,550,682	\$ (121,956)	-3.43%
Total capital assets	<u>\$ 3,428,726</u>	<u>\$ 3,550,682</u>	<u>\$ (121,956)</u>	<u>-3.43%</u>

#### Debt Administration

The District has outstanding General Obligation Bonds of \$445,530 as of June 30, 2014. Principal payments are due in the upcoming fiscal year in the amount of \$10,960 with interest payments totaling approximately \$21,565 also due. Details relating to the outstanding debt can be found in Note 3D. The District is well within its debt covenants and foresees no problems in the future relating to outstanding debt. The District also has no current plans to issue new debt or refund outstanding debt.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

As of July 1, 2014 the District increased rates to .475 per hundred gallons and customer charges to \$15 for residential customers and \$22.50 for commercial customers.

### CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the President of Haywood County Utility District, P.O. Box 424, Brownsville, TN 38012.

**HAYWOOD COUNTY UTILITY DISTRICT**  
**STATEMENTS OF NET POSITION**  
For the Years Ended June 30, 2014 and 2013

<b>ASSETS</b>	<b>2014</b>	<b>2013</b>
<b>Current assets:</b>		
Cash and cash equivalents on deposit	\$ 370,868	\$ 308,585
Accounts receivable	25,671	17,706
Total current assets	<u>396,539</u>	<u>326,291</u>
<b>Noncurrent assets:</b>		
Capital assets:		
Distribution plant	5,033,065	5,033,065
Less: Accumulated depreciation	<u>(1,742,326)</u>	<u>(1,604,339)</u>
Total capital assets (net of accumulated depreciation)	<u>3,290,739</u>	<u>3,428,726</u>
Total assets	<u>3,687,278</u>	<u>3,755,017</u>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable	12,039	13,459
Customer meter deposits	18,555	20,890
Accrued interest	8,926	9,038
Bonds payable - current portion	<u>10,960</u>	<u>10,445</u>
Total current liabilities	<u>50,480</u>	<u>53,832</u>
<b>Noncurrent liabilities:</b>		
Bonds payable	<u>434,570</u>	<u>445,747</u>
Total liabilities	<u>485,050</u>	<u>499,579</u>
<b>NET POSITION</b>		
Net investment in capital assets	2,845,209	2,972,534
Unrestricted	<u>357,019</u>	<u>282,904</u>
Total net position	<u>\$ 3,202,228</u>	<u>\$ 3,255,438</u>

*The accompanying notes are an integral part of the financial statements.*

**HAYWOOD COUNTY UTILITY DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Operating revenues:</b>		
Charges for sales and services:		
Residential - North	\$ 121,031	\$ 84,854
Commercial - North	34,525	22,327
Residential - South	67,242	46,474
Commercial - South	27,017	19,602
Residential - East	16,085	11,013
Commercial - East	12,065	6,923
Bad debts	<u>(248)</u>	<u>(336)</u>
	<u>277,717</u>	<u>190,857</u>
Other operating revenues:		
Meter tapping fees	900	-
Penalties:		
North	1,751	1,299
South	1,347	1,019
East	332	293
Other	<u>5</u>	<u>8</u>
	<u>4,335</u>	<u>2,619</u>
 Total operating revenues	 <u>282,052</u>	 <u>193,476</u>
<b>Operating Expenses:</b>		
Cost of sales and services:		
Power for pumping	5,322	6,024
Purchased water - North	54,143	40,904
Purchased water - South	22,120	39,596
Purchased water - East	<u>8,007</u>	<u>7,514</u>
	<u>89,592</u>	<u>94,038</u>
Operation and maintenance expense:		
Distribution system expense	<u>4,422</u>	<u>1,970</u>
Administrative and general expenses:		
Payments to BEA for salaries and wages	44,270	28,892
Materials and supplies	1,862	355
Automobile expense	398	900

*The accompanying notes are an integral part of the financial statements.*

**HAYWOOD COUNTY UTILITY DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
For the Years Ended June 30, 2014 and 2013

	<b>2014</b>	<b>2013</b>
Meter reading	\$ 8,088	\$ 8,088
Office supplies	85	-
Telephone	2,320	1,891
Professional fees	20,034	4,835
Licenses and fees	693	663
Miscellaneous	-	
Training and meetings	836	1,150
Director's fees	4,200	3,600
	<u>82,786</u>	<u>50,374</u>
Provision for depreciation	<u>137,987</u>	<u>137,596</u>
Total operating expenses	<u>314,787</u>	<u>283,978</u>
Total operating income (loss)	<u>(32,735)</u>	<u>(90,502)</u>
<b>Nonoperating revenue (expenses):</b>		
Interest income	1,276	1,511
Interest expense	<u>(21,751)</u>	<u>(22,579)</u>
Total nonoperating revenue (expenses)	<u>(20,475)</u>	<u>(21,068)</u>
<b>Change in net position</b>	<b>(53,210)</b>	<b>(111,570)</b>
Total net position - beginning	<u>3,255,438</u>	<u>3,367,008</u>
Total net position - ending	<u>\$ 3,202,228</u>	<u>\$ 3,255,438</u>

*The accompanying notes are an integral part of the financial statements.*



**HAYWOOD COUNTY UTILITY DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended June 30,

	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 274,087	\$ 196,757
Cash paid to suppliers for goods and services	(133,114)	(118,216)
Cash paid to employees for services	(45,106)	(30,042)
Customer deposits received	<u>(2,335)</u>	<u>1,485</u>
Net cash provided by (used in) operating activities	<u>93,532</u>	<u>49,984</u>
<b>Cash flows from investing activities:</b>		
Interest income	<u>1,276</u>	<u>1,511</u>
<b>Cash flows from capital and related financing activities:</b>		
Repayment of bonds	(10,662)	(11,385)
Construction and acquisition of capital assets	-	(15,640)
Interest paid	<u>(21,863)</u>	<u>(21,139)</u>
Net cash provided by (used in) financing activities:	<u>(32,525)</u>	<u>(48,164)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>62,283</b>	<b>3,331</b>
Cash and cash equivalents - beginning	<u>308,585</u>	<u>305,254</u>
Cash and cash equivalents - ending	<u>\$ 370,868</u>	<u>\$ 308,585</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>		
Net operating income (loss)	\$ (32,735)	\$ (90,502)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for depreciation	137,987	137,596
(Increase) decrease in current assets:		
Accounts receivable	(7,965)	3,281
Increase (decrease) in current liabilities:		
Accounts payable	(1,420)	(1,876)
Customers' deposits	<u>(2,335)</u>	<u>1,485</u>
Net cash provided by (used in) operating activities	<u>\$ 93,532</u>	<u>\$ 49,984</u>

*The accompanying notes are an integral part of the financial statements.*

**HAYWOOD COUNTY UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Haywood County Utility District (the District) was incorporated pursuant to a decree of the County Court of Haywood County, Tennessee dated July 17, 1997 and pursuant to Section 7-82-101 of the Tennessee Code Annotated (TCA) also known as "The Utility District Law of 1937". The District is considered a component unit of Haywood County, Tennessee, (the County) because, the three member Board is appointed by the County. The District was constructed through grants received through the County and is held accountable to the County.

**B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounting policies of the District conform to applicable accounting principles generally accepted in the United States of America for governmental units as defined by the Governmental accounting Standards Board (GASB).

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges for sales to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non- operating revenues and expenses.

**C. Assets, Liabilities, and Equity**

**Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements, and the state's investment pool.

**Accounts Receivable**

Trade receivables result from unpaid billings for water service to customers. The billing and collections for the District are prepared and collected by Brownsville Energy Authority. Brownsville Energy Authority remits to the District the entire amount of the billings on a monthly basis. Therefore, an allowance for uncollectible accounts receivable is considered unnecessary at this time as the risk of loss is entirely with Brownsville Energy Authority.

**HAYWOOD COUNTY UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

**Capital Assets**

Capital assets, which include property, plant, equipment, and construction in process, are defined by the District as assets with an initial, individual cost of more than \$100 (amount not rounded) and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the District are depreciated using the straight line method over the following useful lives:

Distribution plant	33 - 40 years
--------------------	---------------

**Compensated Absences**

The District does not have any employees or staff. The District pays a set monthly fee to Brownsville Energy Authority for the use of their employees. Therefore, no compensated absences are recorded.

**Long-term Obligations**

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**Net Position**

Equity is classified as net position and displayed in the following two components:

- Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.
- Unrestricted - All other net position that does not meet the description of the above categories.

**Net Position Flow Assumption**

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

**Impact of Recently Issued Accounting Pronouncements**

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012.

**HAYWOOD COUNTY UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary Information**

The District does not adopt a formal budget.

**NOTE 3 - DETAILED NOTES**

**A. Deposits and Investments**

**Custodial credit risk**

The District's policies limit deposits and investments to those instruments allowed by applicable state laws and described below. State statute requires that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the District's agent in the District's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the District to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities and the state pooled investment fund. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2014, the District had no risk exposure.

**B. Receivables**

Receivables as of the fiscal year ends were made up of the following:

	<u>2014</u>	<u>2013</u>
Billed services for utility customers	\$ 25,671	\$ 17,706
	<u>2013</u>	<u>2012</u>
Billed services for utility customers	\$ 17,706	\$ 20,987

**HAYWOOD COUNTY UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

**C. Capital Assets**

Capital asset activity during the year were as follows

Description	Balance at June 30, 2013	Additions	Disposals	Adjustments	Balance at June 30, 2014
Capital assets, not being depreciated					
Distribution plant	\$ 18,401	\$ -	\$ -	\$ -	\$ 18,401
Capital assets, being depreciated					
Distribution plant	5,014,664	-	-	-	5,014,664
Less accumulated depreciation for:					
Distribution plant	1,604,339	137,987	-	-	1,742,326
Total capital assets, being depreciated, net	3,410,325	(137,987)	-	-	3,272,338
Total capital assets, net	\$ 3,428,726	\$ (137,987)	\$ -	\$ -	\$ 3,290,739
Description	Balance at June 30, 2012	Additions	Disposals	Adjustments	Balance at June 30, 2013
Capital assets, not being depreciated					
Distribution plant	\$ 18,401	\$ -	\$ -	\$ -	\$ 18,401
Capital assets, being depreciated					
Distribution plant	4,999,024	15,640	-	-	5,014,664
Less accumulated depreciation for:					
Distribution plant	1,466,743	137,596	-	-	1,604,339
Total capital assets, being depreciated, net	3,532,281	(121,956)	-	-	3,410,325
Total capital assets, net	\$ 3,550,682	\$ (121,956)	\$ -	\$ -	\$ 3,428,726

**D. Long-term Debt**

Long-term debt is made up of the following:

	June 30,	
	2014	2013
General Obligation Bonds:		
General Obligation Bonds, Series 1998 interest at 4.875% due serially through 2037	445,530	456,192
Total General Obligation Bonds	445,530	456,192
Total current portion of General Obligation Bonds	\$ 10,960	\$ 10,445
Total long-term portion of General Obligation Bonds	\$ 434,570	\$ 445,747

**HAYWOOD COUNTY UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

In the year ended June 30, 1998, Haywood County issued \$560,000 of General Obligation Bonds, Series 1998 to the Rural Utility Services for the construction of the District's water distribution system. In the year ended June 30, 1999, Haywood County issued \$72,300 of General Obligation Bonds, Series 1999 to the Rural Utility Services for additional construction of the District's water distribution system. The 1999 General Obligation Bond was paid off in full by the County as of June 30, 2008. Although the General Obligation Bonds, Series 1998 are in the name of the County and the County is ultimately responsible for the debt repayment, the District has agreed to and is repaying the debt.

The following is a summary of long-term debt transactions for the years ended June 30, 2014 and 2013.

	Balance at June 30, 2013	Additions	Retirements	Balance at June 30, 2014	Due Within 1 year
General obligation bonds payable	<u>\$ 456,192</u>	<u>\$ -</u>	<u>\$ 10,662</u>	<u>\$ 445,530</u>	<u>\$ 10,960</u>

  

	Balance at June 30, 2012	Additions	Retirements	Balance at June 30, 2013	Due Within 1 year
General obligation bonds payable	<u>\$ 467,577</u>	<u>\$ -</u>	<u>\$ 11,385</u>	<u>\$ 456,192</u>	<u>\$ 10,445</u>

The scheduled annual requirements for long-term debt at June 30, 2014, are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	10,959.92	21,564.90	32,524.82
2016	11,500.73	21,024.09	32,524.82
2017	12,010.38	20,514.44	32,524.82
2018	12,660.86	19,863.96	32,524.82
2019	13,285.60	19,239.22	32,524.82
2020-2024	76,874.27	85,749.83	162,624.10
2025-2029	97,783.02	64,841.08	162,624.10
2035-2037	85,583.30	7,155.17	92,738.47
	<u>445,130.26</u>	<u>298,104.61</u>	<u>743,234.87</u>

**E. Net Position**

Net position represents the difference between assets and liabilities and deferred outflows/inflows of resources (if present). The net position amounts were as follows:

	June 30,	
	2014	2013
Net investment in capital assets		
Net property, plant, and equipment in services	\$ 3,290,739	\$ 3,428,726
Less: Debt as disclosed in Note 3D	(445,530)	(456,192)
	<u>2,845,209</u>	<u>2,972,534</u>
Unrestricted	357,019	282,904
Total net position	<u>\$ 3,202,228</u>	<u>\$ 3,255,438</u>

**HAYWOOD COUNTY UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

**NOTE 4 - OTHER INFORMATION**

**A. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended June 30, 2014 and 2013, the District did not purchase any insurance. The District contracts with Brownsville Energy Authority for services necessary to operate and maintain the District. No settled claims have been incurred in any of the above mentioned risk categories during the past three years and there has been no significant reduction in the coverage provided.

**B. Credit Risk**

The District provides water services for residents and commercial customers in a portion of Haywood County, Tennessee.

## **SUPPLEMENTARY AND OTHER INFORMATION SECTION**



**HAYWOOD COUNTY UTILITY DISTRICT**  
**SCHEDULE OF LONG-TERM DEBT**  
June 30, 2014

<b>Year Ended</b> <b>June 30,</b>	<b>Series 1998</b>	
	<b>Principal</b>	<b>Interest</b>
2015	10,960	21,565
2016	11,501	21,024
2017	12,010	20,514
2018	12,661	19,864
2019	13,286	19,239
2020	13,941	18,584
2021	14,578	17,946
2022	15,348	17,176
2023	16,106	16,419
2024	16,901	15,624
2025	17,692	14,832
2026	18,607	13,917
2027	19,526	12,999
2028	20,489	12,036
2029	21,468	11,056
2030	22,559	9,965
2031	23,673	8,852
2032	24,841	7,684
2033	26,047	6,477
2034	27,352	5,173
2035	28,701	3,823
2036	30,118	2,407
2037	27,165	925
	<u>\$ 445,530</u>	<u>\$ 298,101</u>

*See independent auditor's report.*

**HAYWOOD COUNTY UTILITY DISTRICT**  
**WATER RATES IN FORCE**  
June 30, 2014

**Residential Rate Schedule**

Customer charge - per delivery point per month	\$	15.00
Water charge - cents per gallon		0.47500

**Commercial Rate Schedule**

Customer charge - per delivery point per month	\$	22.50
Water charge - cents per gallon		0.47500

**Wholesale Rate Schedule**

CL 70 (700) Outside	\$	219.08
Water charge - cents per gallon		0.1400
CL 75 (701) Outside	\$	150.00
Water charge - cents per gallon		0.1400

*See independent auditor's report.*

**HAYWOOD COUNTY UTILITY DISTRICT  
SCHEDULE OF UNACCOUNTED FOR WATER - UNAUDITED  
June 30, 2014**

**AWWA Free Water Audit Software:  
Reporting Worksheet**

WAS v5.0  
American Water Works Association  
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[Click to access definition](#)  
[Click to add a comment](#)

Water Audit Report for: **Haywood County Utility District (0000999)**  
 Reporting Year: **2014**    7/2013 - 6/2014

Please enter data in the white cells below. Where available, metered values should be used. If metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades.

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

---

**WATER SUPPLIED**

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below

Volume from own sources	?	n/a	0.000	MG/yr	
Water imported	?	9	60.193	MG/yr	
Water exported	?	n/a	0.000	MG/yr	
<b>WATER SUPPLIED:</b>			<b>60.498</b>	<b>MG/yr</b>	

**Master Meter and Supply Error Adjustments**

Pcnt:		Value:		
9	-0.50%			MG/yr
Enter negative % or value for under-registration Enter positive % or value for over-registration				

---

**AUTHORIZED CONSUMPTION**

Billed metered	?	9	39.375	MG/yr	
Billed unmetered	?	n/a	0.000	MG/yr	
Unbilled metered	?	n/a	0.000	MG/yr	
Unbilled unmetered	?	9	0.436	MG/yr	
<b>AUTHORIZED CONSUMPTION:</b>			<b>39.811</b>	<b>MG/yr</b>	

**Click here:** [?](#)  
for help using option buttons below

Pcnt:		Value:		
		0.436		MG/yr

Use buttons to select percentage of water supplied OR value

---

**WATER LOSSES (Water Supplied - Authorized Consumption)**

**Apparent Losses**

Unauthorized consumption	?		0.151	MG/yr	
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed					
Customer metering inaccuracies	?	7	0.783	MG/yr	
Systematic data handling errors	?		0.096	MG/yr	
Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed					
<b>Apparent Losses:</b>			<b>1.030</b>	<b>MG/yr</b>	

**Real Losses (Current Annual Real Losses or CARL)**

<b>Real Losses = Water Losses - Apparent Losses:</b>	?		<b>20.654</b>	<b>MG/yr</b>	
<b>WATER LOSSES:</b>			<b>21.684</b>	<b>MG/yr</b>	

Pcnt:		Value:		
0.25%				MG/yr
2.00%				MG/yr
0.25%				MG/yr

---

**NON-REVENUE WATER**

<b>NON-REVENUE WATER:</b>	?		<b>22.120</b>	<b>MG/yr</b>	
---------------------------	---	--	---------------	--------------	--

= Water Losses + Unbilled Metered + Unbilled Unmetered

**SYSTEM DATA**

Length of mains	?	9	93.0	miles	
Number of active AND inactive service connections	?	9	532		
Service connection density	?		6	conn./mile main	
Are customer meters typically located at the curbside or property line?	?		Yes		
Average length of customer service line (length of service line, beyond the property boundary, that is the responsibility of the utility)					
Average length of customer service line has been set to zero and a data grading score of 10 has been applied	?				
Average operating pressure	?	9	65.0	psi	

---

**COST DATA**

Total annual cost of operating water system	?	9	\$336,786	\$/Year	
Customer retail unit cost (applied to Apparent Losses)	?	9	\$7.24	\$/1000 gallons (US)	
Variable production cost (applied to Real Losses)	?	9	\$1,488.40	\$/Million gallons	<input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

---

**WATER AUDIT DATA VALIDITY SCORE:**

\*\*\* YOUR SCORE IS: 84 out of 100 \*\*\*

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

**PRIORITY AREAS FOR ATTENTION:**

Based on the information provided, audit accuracy can be improved by addressing the following components:

- 1: Water imported
- 2: Unauthorized consumption
- 3: Systematic data handling errors

See independent auditor's report.  
- 22 -





## AWWA Free Water Audit Software: System Attributes and Performance Indicators

WAS v5.0

American WaterWorks Association  
Copyright © 2014. All Rights Reserved.Water Audit Report for: **Haywood County Utility District (0000999)**Reporting Year: **2014** **7/2013 - 6/2014****\*\*\* YOUR WATER AUDIT DATA VALIDITY SCORE IS: 84 out of 100 \*\*\***

### System Attributes:

	Apparent Losses:	1.030	MG/Yr
+	Real Losses:	20.654	MG/Yr
=	<b>Water Losses:</b>	<b>21.684</b>	<b>MG/Yr</b>

? Unavoidable Annual Real Losses (UARL): 13.83 MG/Yr

Annual cost of Apparent Losses: \$7,460

Annual cost of Real Losses: \$30,742 Valued at **Variable Production Cost**

Return to Reporting Worksheet to change this assumption

### Performance Indicators:

Financial:

Non-revenue water as percent by volume of Water Supplied:	36.6%	
Non-revenue water as percent by cost of operating system:	11.5%	Real Losses valued at Variable Production Cost

Operational Efficiency:

Apparent Losses per-service connection per day:	5.31	gallons/connection/day
Real Losses per service connection per day:	N/A	gallons/connection/day
Real Losses per length of main per day*:	608.46	gallons/mile/day
Real Losses per service connection per day per psi pressure:	N/A	gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): 20.65 million gallons/year

? Infrastructure Leakage Index (ILI) [CARL/UARL]: 1.49

\* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

See independent auditor's report.

**HAYWOOD COUNTY UTILITY DISTRICT**  
**HISTORICAL INFORMATION - UNAUDITED**  
For the Fiscal Years Ended June 30,

	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Revenue</b>									
Residential	\$ 204,110	\$ 142,005	\$ 142,977	\$ 142,340	\$ 136,731	\$ 136,440	\$ 127,680	\$ 122,447	\$ 116,366
Commercial	73,607	48,852	35,553	30,942	33,452	28,447	22,701	21,662	20,359
Other operating	4,335	2,619	2,984	3,031	2,936	4,848	2,428	1,950	5,873
Interest and other revenue	1,276	1,511	1,805	2,160	2,177	1,014	1,731	1,658	918
	<u>283,328</u>	<u>194,987</u>	<u>183,319</u>	<u>178,473</u>	<u>175,296</u>	<u>170,749</u>	<u>154,540</u>	<u>147,717</u>	<u>143,516</u>
<b>Expense</b>									
Cost of sales and services	89,592	94,038	85,760	69,455	54,619	50,102	50,903	45,663	42,497
Operation and maintenance	4,422	1,970	844	1,477	1,679	489	1,336	-	-
Administrative and general	82,786	50,374	41,143	20,697	25,749	26,594	29,078	25,766	24,817
Depreciation	137,987	137,596	137,596	137,536	137,536	137,536	120,600	120,559	111,841
Interest and other expenses	21,751	22,579	22,794	23,281	23,795	24,447	27,745	28,146	30,175
	<u>336,538</u>	<u>306,557</u>	<u>288,137</u>	<u>252,446</u>	<u>243,378</u>	<u>239,168</u>	<u>229,662</u>	<u>220,134</u>	<u>209,330</u>
Net income (loss) before contributed capital	(53,210)	(111,570)	(104,818)	(73,973)	(68,082)	(68,419)	(75,122)	(72,417)	(65,814)
Contributed capital	-	-	-	-	-	-	680,106	-	697,363
Net income (loss)	<u>\$ (53,210)</u>	<u>\$ (111,570)</u>	<u>\$ (104,818)</u>	<u>\$ (73,973)</u>	<u>\$ (68,082)</u>	<u>\$ (68,419)</u>	<u>\$ 604,984</u>	<u>\$ (72,417)</u>	<u>\$ 631,549</u>
<b>Financial</b>									
Plant in service (at original cost)	<u>\$ 5,033,065</u>	<u>\$ 5,033,065</u>	<u>\$ 5,017,425</u>	<u>\$ 5,017,425</u>	<u>\$ 5,017,425</u>	<u>\$ 5,017,425</u>	<u>\$ 5,016,022</u>	<u>\$ 4,335,916</u>	<u>\$ 4,335,916</u>
Bonds outstanding	<u>\$ 445,530</u>	<u>\$ 456,192</u>	<u>\$ 467,577</u>	<u>\$ 475,473</u>	<u>\$ 484,299</u>	<u>\$ 492,846</u>	<u>\$ 500,988</u>	<u>\$ 574,497</u>	<u>\$ 582,831</u>
Consumption - gallons (in hundreds of gallons)	<u>383,750</u>	<u>401,254</u>	<u>387,934</u>	<u>389,058</u>	<u>375,268</u>	<u>359,960</u>	<u>354,160</u>	<u>342,780</u>	<u>327,240</u>
Peak gallons consumed (in hundreds of gallons)	<u>39,624</u>	<u>51,332</u>	<u>45,106</u>	<u>41,140</u>	<u>40,060</u>	<u>35,480</u>	<u>36,580</u>	<u>33,720</u>	<u>35,690</u>
Number of customers	<u>534</u>	<u>525</u>	<u>532</u>	<u>520</u>	<u>513</u>	<u>509</u>	<u>498</u>	<u>462</u>	<u>461</u>
Line loss	<u>36%</u>	<u>35%</u>	<u>29%</u>	<u>15%</u>	<u>8%</u>	<u>8%</u>	<u>17%</u>	<u>3%</u>	<u>6%</u>

See independent auditor's report.

## **INTERNAL CONTROL AND COMPLIANCE SECTION**

**Members of:**

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AICPA Governmental Audit Quality Center  
AICPA Employee Benefit Plan Audit Quality Center  
Tennessee Society of Certified Public Accountants  
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**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

Board of Directors  
Haywood County Utility District  
Brownsville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Haywood County Utility District, a component unit of Haywood County, Tennessee as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 15, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Recommendations as items 2009-001 and 2013-001.

## **District's Response to Findings**

The District's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Jackson, Tennessee  
December 15, 2014



**HAYWOOD COUNTY UTILITY DISTRICT  
SCHEDULE OF FINDINGS AND  
RECOMMENDATIONS  
June 30, 2014 and 2013**

**Current Year Findings:**

**2009-001 Net Loss (Material Non-compliance)**

Condition: It was noted during the audit that the District operated at a deficit during the fiscal year. Total revenues for the District were \$283,328 while total expenses were \$336,538, resulting in a negative change in net position of \$53,210. Before depreciation expense the change was a positive \$84,777.

Criteria: This is a violation of Tennessee Code Annotated 7-34-114 which states "the governing body of a municipality issuing bonds pursuant to this chapter shall prescribe and collect reasonable rates, fees or charges for the services, facilities and commodities of such public works, and shall revise such rates, fees or charges from time to time whenever necessary so that such public works shall be and always self-supporting."

Effect: Sustained losses over a period of time could significantly deteriorate the District's financial condition.

Recommendation: We recommend that the District examine its operations and determine if it is need of increasing rates or decreasing expenses to eliminate this net loss. While the District's asset and equity accounts are strong, a continual net loss can drastically reduce these accounts to unsafe levels.

Response: The District increased rates effective July 1, 2014 to keep from operating at a net loss.

**2013-001 Three Day Deposit Violation ( Non-compliance)**

Condition: It was noted during the audit that the District failed to make timely deposits in four of the six cash receipts tested. The deposits were for checks from Brownsville Energy Authority to compensate Haywood County Utility District for that month's billing collections.

Criteria: This is a violation of Tennessee Code Annotated 5-8-207 which states "every county official handling public funds shall be required to maintain an official bank account in a bank or banks within this state, and shall, within three days after receipt by such county official of any public funds, deposit the funds to the credit of such county official's official bank account, or bank accounts."

Effect: Not making timely deposits could result in fraud or potential lost funds.

Recommendation: We recommend that the District follow the three day deposit requirement going forward.

Response: The District acknowledged the issue and will make the appropriate changes to meet the three day deposit requirement going forward.

**HAYWOOD COUNTY UTILITY DISTRICT  
SCHEDULE OF PRIOR YEAR FINDINGS AND  
RECOMMENDATIONS  
June 30, 2014 and 2013**

**Prior Year Findings:**

<b>2009-001 Net Loss (Material Non-compliance)</b>	<b>Repeated</b>
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<b>2013-001 Three Day Deposit Violation ( Non-compliance)</b>	<b>Repeated</b>
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